

WEALTH ADVISOR QUARTERLY



WEALTH ADVISORS GROUP

PLAN | INVEST | PROTECT

July 2010

Issue 27

YTD Performance 6/30/10

Dow Jones Inds. -5.00
NASDAQ -7.05
S&P 500 -6.65
Russell 2000 -1.95

Fixed Income Indices

Barclays Aggregate +5.33
Barclays Govt Long +12.92

Int'l Stock Indices

MSCI EAFE -12.92
MSCI Emerg. Mkts. -6.04

A Tale of Two Outcomes

In our Economic Outlook article six months ago (12/31/2009) we wrote "following a solid start to 2010, we expect a challenging second half..." our view hasn't changed. The S&P 500 started the year off strong with a first quarter gain, followed by a total return of -11.43% in the 2nd quarter, bringing the year-to-date total return to -6.65%. While the headwinds started a little earlier than expected, to say that we were surprised by the first half of the year would not be accurate.

Currently, we are battling against two different data sets. Our "base case" scenario is that the economy and the stock market will experience a prolonged period of slow to moderate growth. This is the predominant position held on Wall Street, and reflects the "New Normal" that we've discussed in this column in the past. This camp points toward continued earnings growth from S&P 500 companies and positive GDP growth over the past few quarters as reasons for optimism that the U.S. will continue to surge ahead.

Unfortunately there are some prominent analysts, outside of the Wall Street bubble, that present a second set of data that doesn't paint a picture as rosy as the base case scenario. Recent data compiled by the Economic Cycle Research Institute (ECRI) provides some caution, and believes that the likelihood that the U.S. economy is headed "back" into a recession is greater than most Wall Street talking heads would admit. Lakshman Achuthan, the head of ECRI, noted "We're definitely rolling over, let's not sugar coat it." But, Achuthan was not willing to speak in definite terms as he followed up with this: "Unfortunately, it's not that simple. We're not brushing this off, but it's premature. It [the data pointing towards a pending recession] has not persisted long enough."

Noted economist, Ph.D., and fund manager John Hussman has taken it a step further, with much more certainty in bearish expectations. In his recent economic commentary titled "Recession Warning" Hussman states: "In recent months, I have finessed this issue by encouraging investors to carefully examine their risk exposures. I'm not sure that finesse is helpful any longer. The probabilities are becoming too high to use gentle wording. Though I usually confine my views to statements about probability and "average" behavior, this becomes fruitless when every outcome associated with the data is negative, with no counterexamples." Hussman is an economist and fund manager that we respect, which makes his comments even more concerning for us.

As investment advisors, one of our core responsibilities is that of being a good synthesizer. For us, synthesizing is bringing many different pieces of analysis, data,

and viewpoints from some of the best investment analysts in the world together to form a unified view. Filtering out the less-informed and finding the well-informed is crucial and one of the greatest challenges for financial professionals. This process, which leads to forming our investment direction, is at the core of what we do.

The challenge in this process right now is how vastly different the potential outcomes are looking forward. While the most likely scenario is a slow growth period, we can't ignore the data pointing towards the increasingly likely scenario of a further recession creating losses in the stock market. Our job is to weigh the likelihood of each scenario and maintain our disciplined investment approach. If evidence continues to build towards further struggles and the potential for significant market losses we have our process in place which allows us to act quickly. Along those lines, earlier this year we acquired new software that allows us to rebalance client accounts significantly faster. We are confident that the combination of a more thorough investment process and more robust technology gives us the ability to act swiftly when the data warrants.

As always, we thank you for your confidence and trust.

Health Care Reform Tax Implications

Last quarter we discussed the market impacts of the Health Care Reform Acts passed in March, 2010. As the dust begins to settle from the passing of these new health care laws the impact of these changes are beginning to be realized. At first glance, it was uncertain what ramifications, if any, would be directly tied to income tax rates. However, these implications are now surfacing and we want you to be aware of these changes.

One potentially negative longer-term outcome for the broader market stems from the tax and deficit impacts of the legislation. The legislation imposes a new 3.8% tax on investment income. This lowers the

after-tax return on investments. It also adds a 0.9% tax on wages for those earning more than \$250,000, set to take effect in 2013.

As more details, and the corresponding impact, of the Health Care Reform Act become apparent we will be sure to keep you informed.

Name Change Reminder

As most of you are already aware, we have officially changed our name to Wealth Advisors Group. We've been collaborating with LPL Financial over the past few months to create a new brand image. The last piece still outstanding is our new website, which will be rolling out in the next several weeks. We will keep you posted when it is ready. If you have any questions about our rebranding, please don't hesitate to ask!



WEALTH ADVISORS GROUP
PLAN | INVEST | PROTECT

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and may not be invested into directly.

The Dow Jones Industrial Average is comprised of 30 stocks that are major factors in their industries, and widely held by individuals and institutional investors.

The NASDAQ Composite Index measures all domestic and non-U.S. based common stocks listed on The NASDAQ Stock Market. The market value, the last sale price multiplied by total shares outstanding, is calculated throughout the trading day, and is related to the total value of the Index.

The Standard & Poor's 500 Stock Index (S&P 500) is an unmanaged capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Russell 2000 Small Stock Index is an unmanaged index generally representative of the 2000 smallest companies in the Russell 3000 Index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index. The Russell 2000 Index measures the performance of the Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

The Barclays Capital U.S. Aggregate Bond Index provides a measure of performance of the U.S. investment grade bonds market, which includes investment grade U.S. Government bonds, investment grade corporate bonds, mortgage pass-through securities and asset-backed securities that are publicly offered for sale in the United States. The securities in the Index must have at least 1 year remaining to maturity. In addition, the securities must be denominated in US Dollars and must be fixed rate, nonconvertible, and taxable.

The Barclays Capital Long U.S. Government Index includes all publicly issued, U.S. Treasury and U.S. Agency securities that have a remaining maturity of 10 or more years, are rated investment grade, and have \$250 million or more of outstanding face value. In addition, the securities must be denominated in U.S. dollars and must be fixed rate and non convertible.

The Morgan Stanley Capital International ('MSCI') Europe, Australia, Far East Index ('EAFE') is an unmanaged index of over 900 companies, and is a generally accepted benchmark for major overseas markets. Index weightings represent the relative capitalizations of the major overseas markets included in the index on a U.S. dollar adjusted basis. The index is calculated separately: without dividends, with gross dividends reinvested and estimated tax withheld, and with gross dividends reinvested, in both U.S. dollars and local currency.

The Morgan Stanley Capital International ('MSCI') Emerging Markets Index adjusts the market capitalization of index constituents for free float and targets for index inclusion 85% of free float-adjusted market capitalization in each industry group, in global emerging markets countries. As of June 2007, the MSCI Emerging Markets Index consisted of the following 25 emerging market country indexes: Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Jordan, Korea, Malaysia, Mexico, Morocco, Pakistan, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors.

Securities offered through LPL Financial.
Member FINRA/SIPC.



WEALTH ADVISORS GROUP
PLAN | INVEST | PROTECT